

**HONEY CREEK RESORT OPERATIONS ACCOUNT
MANAGED BY
CENTRAL GROUP MANAGEMENT, LLC**

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
U.S. GENERALLY ACCEPTED AUDITING STANDARDS**

JUNE 30, 2014

Honey Creek Resort

Officials

Name

Title

State

Honorable Terry E. Branstad
David Roederer
Glen P. Dickinson

Governor
Director, Department of Management
Director, Legislative Services Agency

Central Group Management, LLC

Roberts H. Pace, Jr.
Linda Caird

President - CEO
Vice President Finance

Iowa Department of Natural Resources

Chuck Gipp

Director



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

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Independent Auditor's Report on Internal Control over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with U.S. Generally Accepted Auditing Standards

To the Board Members of the Natural Resource Commission:

We have audited in accordance with U.S. generally accepted auditing standards the financial statements of the Honey Creek Resort Operations Account managed by Central Group Management, LLC (Honey Creek Resort) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, and have issued our report thereon dated November 14, 2014 under separate cover.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Honey Creek Resort's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Honey Creek Resort's internal control. Accordingly, we do not express an opinion on the effectiveness of Honey Creek Resort's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Honey Creek Resort's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist which have not been identified. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings, we consider to be a significant deficiency in internal control over financial reporting.

Honey Creek Resort's Response to the Finding


Honey Creek Resort's response to the finding identified in our audit is described in the accompanying Schedule of Findings. Honey Creek Resort's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing and not to provide an opinion on the effectiveness of Honey Creek Resort's internal control. This report, a public record by law, is intended solely for the information and use of the officials and employees of Honey Creek Resort and other parties to whom Honey Creek Resort may report, including the Iowa Department of Natural Resources and the officials, employees and citizens of the State of Iowa. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Honey Creek Resort during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 14, 2014

Honey Creek Resort Operations Account

Schedule of Findings

Year ended June 30, 2014

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

GM Comp Account – During our review, we identified a GM (General Manager) Comp Account. Through discussions with CGM Corporate Management Staff and employees at the Resort, the GM Comp Account is utilized for meals provided to the manager on duty (MOD), customer complaints, employee appreciation and business meals and entertainment associated with the Executive Team Members of the Resort. The Executive Team Members consist of the General Manager, the Human Resource Director, the Golf Pro, the Executive Chef, the Front Office Manager, the Director of Sales, the Aquatics Manager and the Chief Engineer.

We selected various transactions in the GM Comp Account for testing. Of the 28 transactions tested, 1 transaction, with a total retail price of \$30.70, did not contain adequate documentation to determine who was in attendance and the business purpose of the event. Also, 9 additional transactions contained various amounts of alcoholic beverages charged to the GM Comp Account.

For example:

- On Tuesday, July 9, 2013, \$104.34 was charged to the GM Comp Account. The retail price was \$145.92 prior to discounts and tax. This was for a menu test with three members of the Executive Team, which included an alcoholic beverage, retailed at \$27.00, and a \$26.27 gratuity.
- On Friday, September 13, 2013, \$61.64 was charged to the GM Comp Account. The retail price was \$86.21 prior to discounts and tax. The receipt stated “Meal with Patrick” and included 3 alcoholic beverages, retailed at \$20.25, and a \$15.52 gratuity.
- On Friday, November 29, 2013, \$11.98 was charged to the GM Comp Account. The retail price was \$16.75 prior to discounts and tax. The receipt stated “For Todd” and included 3 alcoholic beverages, retailed at \$16.75, and a \$3.02 gratuity.

As documented in CGM Manager on Duty (MOD) meal procedures, guests are allowed to dine with the Manager on Duty when business levels allow. These procedures also allow for alcohol to be consumed in accordance with local laws and guidelines for responsible alcohol consumption.

Honey Creek Resort Operations Account

Schedule of Findings

Year ended June 30, 2014

Recommendation – Although a CGM policy allows the General Manager and others to consume alcohol as part of their meals, CGM and DNR should consult legal counsel and consider including additional clarification in the Hotel Management Agreement between CGM and DNR regarding reasonable dining expenses, including maximum amounts and alcohol consumption. Adequate documentation should be maintained to support who ate the meals and the business purpose of the meals.

Response – CGM has had an employee alcohol consumption policy in place since February 27, 2009. CGM has also had a written employee discount policy for meals, a manager on duty (MOD) meal and beverage policy while on and off duty, a general manager meal and beverage policy while dining with guests for regular evaluation of our restaurant service and for other business purposes and a meal and beverage policy for other managers as directed by the GM. The policy has been in place since January 30, 2010. From the examples presented and the comment from the prior year audit, we have closely monitored the GM Comp charges and have changed our policy as of October 1, 2014 so that MOD and GM meals are not to include any alcohol charges. CGM and the General Manager continue to reinforce the policy of documenting the business purpose of each charge to the GM account.

Conclusion – Response accepted.